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DATE: April 18, 2019

TO: Minnesota Housing Board Members

FROM: Jennifer Leimaile Ho, Commissioner

**SUBJECT: FINANCE AND AUDIT COMMITTEE MEETING**

A meeting of the **Finance and Audit Committee** has been scheduled for **11:30 a.m. on Thursday, April 24** at the offices of Minnesota Housing, 400 Wabasha Street, Suite 400, St Paul, MN 55102 in the **Lake Superior Conference Room on the fourth floor**.

The topics for discussion at this meeting are:

- A. RSM US LLP presentation launching the FY19 financial audit
- B. Other Business (if any)
- C. Adjournment

This committee is a committee of the whole and all members are encouraged to attend.

If you have questions, please call Rachel Franco at (651) 296-2172.



Committee Agenda Item: A  
Date: 4/25/2019

**Item:** RSM US LLP presentation launching the FY19 financial audit.

**Staff Contact(s):**

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**Request Type:**

- |                                     |  |
|-------------------------------------|--|
| <input type="checkbox"/> Approval   | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion     | <input checked="" type="checkbox"/> Discussion       |
| <input type="checkbox"/> Resolution | <input checked="" type="checkbox"/> Information      |

**Summary of Request:**

Representatives from the RSM US LLP, the Agency's external audit team, will discuss audit planning for the 2019 engagement. The discussion will include engagement terms, audit timing and scope and risk factors that include fraud and key transactions.

**Fiscal Impact:**

None

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- RSM US LLP presentation

**PRESENTATION TO THE  
AUDIT COMMITTEE  
MINNESOTA HOUSING FINANCE AGENCY**

Audit Planning Communication

April 25, 2019



## Engagement team

- Public sector
  - Corey Topp—Client service partner
  - Drew Erickson—Public sector manager
  - Eric Engblom—Public sector In-charge
- Financial institutions
  - Hank Donatell—Partner
  - Dave Antonson—Senior manager
  - Karly Flores/Tony Schoenberg—In-charge
- Information technology
  - Goktug Aksan—Manager

# Summary of engagement terms

- Our audit procedures are designed to the following:
  - Provide reasonable assurance that the financial statements are free of material misstatement.
  - Satisfy the requirements of *Government Auditing Standards*.
  - Satisfy the audit requirements imposed by the Single Audit Act and the Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).
  - Address management's initial selection of, and changes in, significant accounting policies or their application; methods used to account for significant unusual transactions; and the effect of significant accounting policies in emerging areas.
  - Focus on accounting estimates that are particularly sensitive to the financial statements based on their significance and level of management judgment.
  - Communicate any disagreements with management about matters that could be significant to the financial statements.

## Summary of engagement terms (continued)

- Our audit procedures are designed to the following (continued):
  - Alert the Audit Committee of any significant errors, fraud or illegal acts identified during our audits.
  - Communicate adjustments, whether or not recorded by Minnesota Housing, that could, either individually or in the aggregate, have a significant effect on the Minnesota Housing's financial reporting process.
  - Communicate significant deficiencies and material weaknesses identified through our review of internal control over financial reporting.
- We will make the Audit Committee aware of significant written communications between RSM US LLP and Minnesota Housing during the year.
- We do not anticipate any scope limitations, which would cause us to qualify our audit opinions.
- Minnesota Housing will be considered to be a high-risk auditee for purposes of the performance of the Uniform Guidance audit.

# Auditor's independence

## Commitment to independence

- RSM US LLP employs a comprehensive, multifaceted approach to maintaining independence.
- Key components are as follows:
  - Culture that stresses the importance of independence
  - Pervasive consultation and monitoring processes
  - Strong policies that are clearly communicated
  - Chief ethics and compliance officer reports to CEO and Board of Directors
  - Training for all partners, principals and professionals
  - Restricted entity list and electronic tracking of personal financial holdings
  - Annual representations from partners, principals and employees
  - Internal inspection and audit process for compliance with policies
  - Disciplinary process for noncompliance
- 2011 Revision of Government Auditing Standards

## Audit services scope

- Communication to the Audit Committee
- Financial report
- Single audit report
- Control deficiencies and business improvement suggestions
- Information systems analysis

## Audit timing

<b>Audit activities</b>	<b>Timing</b>
Planning meeting with management	March 6, 2019
Audit Committee meeting to discuss audit plan	April 25, 2019
Audit planning and preliminary procedures	May 2019
Internal control procedures	May 2019
Test of controls and compliance (Uniform Guidance audit)	June 2019
Final audit fieldwork and reporting	August 2019
Final reports due for mailing with Board agenda items	August 20, 2019
Board of Directors meeting to present 2019 audit results	August 29, 2019

## Audit strategies

- Audit efficiencies
  - Information technology
  - Engagement team
  - Timing
- Concurring reviewer
  - Timing of involvement

## Key transactions/risks

- Financial statements
    - Revenue recognition
    - Management override of controls
    - Information system assessment
    - Loans receivable
    - Interest rate swap agreements
  - Single Audit
    - Scrutiny by regulators and funding sources
    - Two major programs for 2019
      - Section 8 Project Based Cluster
      - HOME Investment Partnerships Program
- CFDA 14.182 & 14.195  
CFDA 14.239

## Fraud risk factors

- As required by AU Section 316, RSM US LLP, with the assistance of management and the Audit Committee, will compile a listing of potential fraud risk factors specific to Minnesota Housing.
- Major criteria considered are the following:
  - Areas more likely susceptible to fraud
  - Materiality
  - Financial performance *versus* budget and prior year
  - Revenue recognition policies and procedures
  - Significant judgments and estimates
  - Management structure and any changes
  - General systems environment
  - Current market and industry conditions
  - Understanding of business and history of errors

# Adoption of accounting standards

Required to be adopted in 2019

- GASB Statement No. 83, *Certain Asset Retirement Obligations*
- GASB Statement No. 88, *Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*

Required to be adopted in future years

- 2020 – GASB Statement No. 84, *Fiduciary Activities*
- 2020 – GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*
- 2021 – GASB Statement No. 87, *Leases*
- 2021 – GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

Exposure drafts: financial reporting model, revenue and expense recognition

## General comments and feedback

Thank you for allowing us to serve Minnesota Housing Finance Agency

Our goal is to not only meet, but exceed, your expectations.

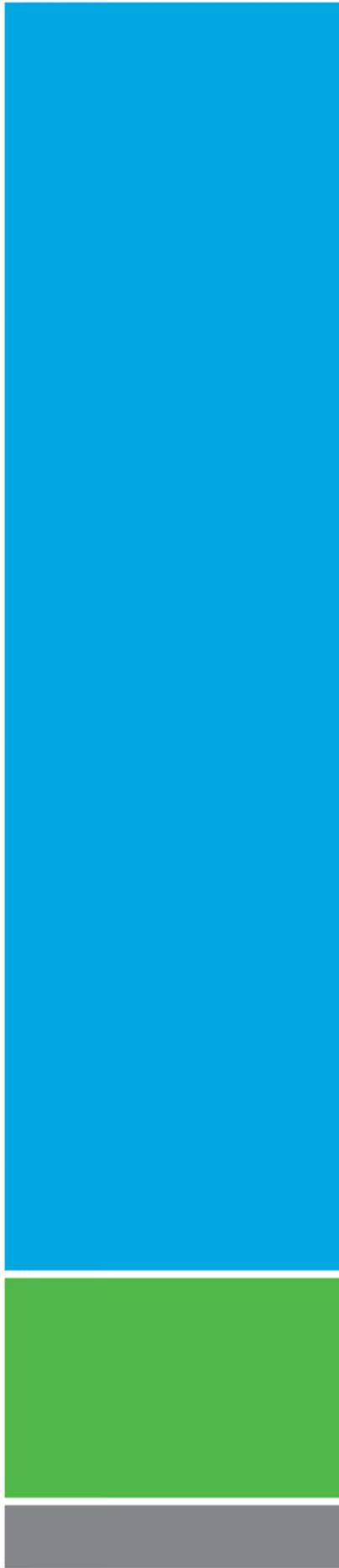
Your feedback is important to us in achieving that goal.

Presented by: Corey Topp, Hank Donatell, Dave Antonson and Drew Erickson





THANK YOU FOR  
YOUR TIME AND  
ATTENTION



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